Backgrounder: German Democratic Republic

Ministry of International Business
and Immigration
Province of British Columbia
Canada
Elwood N. Veitch, Minister

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MESSAGE FROM THE MINISTER

British Columbia's ties to Europe are both cultural and economic. While we are Canada's gateway to the Pacific Rim, we have consistently maintained a balanced trading pattern, one in which the European market plays an important role.

International trade and investment are vital to the British Columbia economy and the Provincial Government, through my Ministry, vigorously promotes trade with all parts of the world. We have been successful in diversifying our economy, expanding trade with Pacific Rim, the U.S.A., and Europe. Current exports to Europe are 16% of our $18 Billion total exports. This is the highest percentage of any province in Canada.

This discussion document has been produced because the changes happening in Eastern Europe -- especially in East Germany, on the verge of unification --will certainly have an impact on the potential for trade for British Columbia. It presents many challenges, but it also offers a new world of opportunity for our business.

With this background information, you will be better prepared to deal with this quickly changing part of the world.

Elwood N. Veitch
Minister of International Business
and Immigration

GERMAN DEMOCRATIC REPUBLIC

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GERMAN DEMOCRATIC REPUBLIC FACT SHEET

Head of State:	Prime Minister Hans Modrow
Government type:	Socialist Unity Party (SED) communist party of East Germany
Population:	16.6 million
Area:	108,163 sq km (41,601 sq mi.)
Language:	German
GDP:	US $209 billion
NMP:	US $ 45 billion NMP: Net material product = GNP less depreciation and most services.
Per Capita income:	US$12,608 (the highest in Eastern Europe)
Inflation:	4% (1990)
Population density:	155 persons/sq.km
Religion:	Protestant 47%, Roman Catholic 7%, no affiliation 45%.
Average Annual growth rate:	4.5% (1986)
***Exchange rate:**	East German marks per US$ (1988 average): 1.75. Recent rate in East Germany: 3. In West: 6
***Trade Partners:**	The GDR has been a member of the COMECON since 1950 and signed the Warsaw Pact in 1955.
***Total Imports:**	US $48 billion (87)
***Total Exports:**	US $50 billion (87)
Imports from Canada:	Cdn. $72.5 million
Imports from B. C.:	Cdn. $ 1.75 million
***Exports from Canada:**	US $44.4 million
EC membership:	If there is some form of German reunification there will likely be a formal entry of the GDR into the European Community. Although the EC Heads of State confirmed that no new countries would be admitted until after 1993.
Recent Events:	In mid-September 1989, Hungary allowed a flood of East Germans to cross its borders to the West. On October 18, 1989, the then strict Eastern German leader Erich Honecker, was replaced by Egon Krenz. Facing protests and a continuing exodus, the government announc-ed on November 9, 1989 that it would open the Berlin Wall, along with its other borders. Hans Modrow was elected Prime Minister by the Parliament on November 13, 1989, more than 340,000 emigrated in 1989 with another 80,000 estimated to have left in the first two months of 1990. Elections are planned for March 18, 1990. The question of East and West German unification as well as monetary union is foremost on everyone's mind.

* Financial Post, March 2, 1990

GERMAN DEMOCRATIC REPUBLIC

OVERVIEW

The standard of living in the GDR is higher than in any of the communist countries, partly because of the technical competence and skill of the people, and partly because of the stimulus of competition with West Germany.

HISTORY

Upon the unconditional surrender of Germany to the Allies on May 8, 1945, the U.S., the U.K. and USSR occupied the country. They, and later France, assumed responsibility for its government. At Potsdam in August 1945, 104,800 square km of former German areas were placed under Polish administration, and a smaller area in East Prussia was assigned to Soviet administration. In the zone governed by the Soviets, the Social Democratic Party was forced on 1946 to merge with the Communist Party to form a new party, the Socialist Unity Party (SED). Under Soviet directions, a constitution was drafted on May 30, 1949 and adopted on October 7, 1949, which is now regarded as the national day of the GDR.

ECONOMY

In the immediate postwar years, the Soviets stripped the GDR economy for reparations, removing factories, rail, and rolling stock, as well as industrial goods, timber and livestock. Estimates of the value of this material suggests that as much as 50% of the prewar industrial capital of East Germany may have been sent to the Soviet Union. Reparations levied on East German production continued until the mid 1950's and further delayed economic recovery. The Berlin wall was constructed in August 1961 to put a halt to continual emigration between East and West Berlin.

The GDR economic structure is similar to the Soviet Union's in that state ownership and centralized control prevail, but some small businesses are still privately owned. A State Planning Commission serves as executor and adviser regarding long-range economic policy.

Today the GDR is the most highly industrialized country in Eastern Europe, with more than half of its GNP derived from the industrial sector. It's per capita income is the highest in Eastern Europe.

Expansion of the economy has been slowed since 1975 by sharp price increases for raw materials and imported energy resources and by the GDR's inability to expand its work force. To counteract falling growth rates, the leadership has pushed for technological developments to raise productivity and since 1976, has promoted a reorganization of industrial enterprises into large scale organizations known as "Kombinate" in an attempt to upgrade the efficiency of industrial management.

In common with many other East European countries, the GDR experienced hard currency credit problems and a general slowing of economic growth in the early 1980's. By 1985, a series of belt-tightening measures, including import reductions and cutbacks in new investment, had helped ease the GDR's immediate problems. During '84-'85 the GDR enjoyed a period of strong economic growth, and investment cuts delayed the GDR's program to modernize its industrial infrastructure.

GERMAN DEMOCRATIC REPUBLIC TRADE RELATIONS

Foreign trade is a state monopoly. Trade organizations conduct import and export transactions for particular sectors of industry.

***1987 Exports:**	US $50 billion $18.02 billion transfer rubles (communist countries) machinery and equipment, chemical products, textiles, clothing.
Major markets:	USSR Eastern Europe (Czechoslovakia, Poland) Federal Republic of Germany
***1987 Imports:**	US $48 billion 12.47 billion transfer Eastern Europe, FRG raw materials, fuels, agricultural products, machinery and equipment
Major Suppliers:	USSR Eastern Europe Federal Republic of Germany

TOTAL TRADE WITHIN THE COMECON (MILLION ROUBLES) 1980 Figures

USSR	45,777	42%
GDR	16,122	15%
Czechoslovakia	13,252	12%
Hungary	10,303	9%
Bulgaria	9,623	9%
Rumania	5,714	5%
Cuba	5,541	5%
Poland	3,211	3%
Mongolia	616	1%
TOTAL	**110,159**	**100%**

About 64% of GDR trade in 1985 was with the USSR and other COMECON countries.

Trade with both communist and noncommunist countries consist generally of exporting manufactured goods and importing basic materials.

Main western trading partners are:

Federal Republic of Germany
France
Austria

*Financial Post March 2, 1990

GERMAN DEMOCRATIC REPUBLIC AND WEST GERMANY

West Germany remains the most important trading partner outside the Eastern bloc, accounting for 8.3% of total trade in 1985.

The GDR has benefited greatly from a special trade relationship with the FRG. In recent years, this inner German trade arrangement has become increasingly important and has compensated partly for the GDR's loss of its traditional markets and sources of raw material in the West and has helped to overcome its hard currency balance of payments problems.

The FRG was seeking a wider role in the GDR economy, and in 1984 the two states reached agreements on economic cooperation, including one allowing West German companies to process East German steel, and a contract providing for the production under licence of Volkswagen engines in the GDR. Intra German trade operates under a system of 'swing' loans, providing the GDR with interest-free credit from the FRG; in 1985 this facility was increased from DM 500 million to DM 850 million for the period of 1986-1990.

GERMAN DEMOCRATIC REPUBLIC AND FRANCE

In 1980, a 5 year agreement was signed between the GDR and France, designed to establish France as the GDR's second largest Western trading partner. It was extended by an additional agreement in 1985 to expand trade between France and the GDR five-fold by 1990.

BRITISH COLUMBIA'S EXPORTS TO THE GDR

In 1988, British Columbia exports to the GDR were $ 1,7 Million. The GDR is British Columbia's 66th largest export destination.

British Columbia Export Products:

As the attached chart shows, British Columbia's exports were mainly natural resources except for measuring or checking instruments, orthopaedic appliances and refrigerators/freezers. The "other" category includes more natural resources as well as hand tools (i.e. power drills), drawing, marking out or mathematical calculation instruments (i.e. survey, calculating equipment), as well as automated data pr essing.

CANADIAN EXPORTS TO THE GDR

In 1987, Canada's export to the GDR were C $72.5 million

1. Grains and oilseed
2. Forest products, equipment, services
3. Mine, Metal, Mineral Products and Services
4. Chemical products and petrochem, equipment, services

TRADE OPPORTUNITIES WITH GDR

Forest products, equipment, services

Needing modernization, the pulp and paper sector presents opportunities for Canadian suppliers. Canadian Consulting firms are currently pursuing two major projects. The Export Development Corportation has expressed willingness to provide financing.

Mine, Metal, Mineral Products/Services

Goodyear Canada is pursuing efforts to become major supplier of conveyor belting to GDR.

Agriculture and Food Products/Services

The GDR's current five year plan emphasizes the food processing sector, presenting opportunities for Canadian slaughtering, processing, labelling and packaging equipment.

Major 1988 British Columbia Exports to the GDR

	Commodity	Value (CDN $ thousands)
1.	Asbestos	802.7
2.	Measuring or checking instruments	165.2
3.	Tungsten	164.8
4.	Iron ores and concentrate	96.8
5.	Copper waste and scrap	89.9
6.	Barley	66.0
7.	Orthopaedic appliances	64.4
8.	Regrigerators/freezers	51.4
9.	Base metal wire rods	28.9
10.	Other	215.0
	Total	1745.1

Major 1988 Canadian Exports to the GDR:

	Commodity	Value (CDN $ millions)
1.	Barley	19.9
2.	Wheat	16.3
3.	Asbestos	4.6
4.	Wood pulp	4.0
5.	Copper waste and scrap	2.0
6.	Ethylene polymers	1.7
7.	Unwrought copper	1.2
8.	Waste and scrap of precious metals	1.2
9.	Safety glass	1.1
10.	Other	20.5
	Total	72.5

Major 1988 British Columbia Exports to the GDR

	Commodity	Value (CDN $ millions)
1.	Iron and steel products	9.7
2.	Furniture and parts	5.7
3.	Automatic data processing machinery	4.3
4.	Glassware	3.9
5.	Slag from iron and steel mfg.	3.9
6.	Electric water heaters	2.3
7.	Parts for winches, pulleys, heists etc.	2.1
8.	Apparel and clothing (knitted)	2.1
9.	Nitrogenous fertilizers	1.7
10.	Other	18.2
		53.9

JOINT VENTURE WITH THE GDR

Until recently East Germany did not permit joint ventures. It also lacks legal guarantee for private property, a freely convertible currency and the right to transfer capital.

A recent article in Financial Post (Jan. 17,1990) headed "East and West Germany looking for joint ventures" announced that a new East German investment law will allow West German firms to have majority holdings in East German companies. The new law allows minority holdings of up to 49% by big West German companies planning joint ventures with East German businesses. Holdings could exceed 49% for small-and medium-sized industries as well as for Western companies bringing needed technology into East Germany.

Some 20 West German firms already manufacture in East Germany, of which some of the larger firms are as follows:

Adidas	-	Sportswear
Beiersdorf	-	Cosmetics
Salamander	-	Shoes
Volkswagen	-	Autos

Volkswagen also imports 100,000 engines made annually in Karl-Marx-Stadt, East Germany. A recent news article announced that Volkswagen will now also manufacture a line of their cars in East Germany.

NOTEABLE CANADIAN INVESTMENT/JOINT VENTURES

UMA - Designed the Bobsled and luge tracks for the Calgary Olympics in cooperation with an East Germany Company. They also have first right of refusal on any venture in the Western World. They are currently bidding on the Olympic bobsled and luge for the next winter Olympics in Norway.

Klockner Stadler Hurter Ltd. of Montreal is competing to build a new pulp and paper operation, but is facing strong competition from Scandinavian and Western German interests.

DOING BUSINESS IN THE GDR SEMINAR SEPTEMBER 1990

In September 1990, Mr. Heinz-Peter Schreiber, Commercial Counsellor, Embassy of the GDR in Ottawa, will bring a mission to Vancouver to promote investment in the GDR. The mission will be headed by the GDR Director, Overseas Offices, Ministry of Foreign Trade and will include Director Generals of the government-owned trading company, Trans-Inter, the government owned trading house, IRI, and the national oil company. Mission members will be discussing how to do business in the GDR, import requirements regarding industrial plants and equipment, and end user requirements.

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CONCLUSION

The GDR's economy was one of the most successful in the Eastern bloc, and ambitious economic targets have been set in a series of Five-year Plans. Since the opening of East Germany and the upcoming election on March 18, 1990, East Germany is now trying to work towards a free market decentralized economy. The economic reform, however, will take some time.

Discussion of political and monetary union will be the main issue around the next few months. Laws concerning repatriation of capital, remittance of profits, and taxation will be passed only after the election in March.

The office in Munich and the office in Vancouver will continue to monitor the situation in the GDR as the economic climate changes in response to the election results.

APPENDIX:

CANADA - GDR MIXED ECONOMIC COMMISSION *

The third meeting of the Canada-GDR Mixed Economic Commission was held in Ottawa on 29-30 May 1989.

The highlights of the protocol agreement is the GDR's wish and capability to supply to Canada the following products:

Components for road machines
Cranes
Electric household appliances
Electric vehicle equipment
Equipment and facilities for raw material production and processing
Furniture
Glass and ceramic products
Licensing and know-how
Machine tools
Musical instruments
Precision mechanical and optical equipment
Printing machines
Sports and camping articles
Textiles
Wire drawing machines

Canada has the wish and ability to supply a larger and more varied range of goods and services. Particular export interests of Canada include:

Agricultural commodities
Bio-and genetic technologies and materials
Chemical processes and products
Energy and environmental control processes and equipment
Food processing and packaging equipment
Forest based commodities
Livestock
Materials and equipment for the mining and metallurgy industries
Other industrial and consumer goods.
Processed fish and seafood products
Services and equipment for the pulp and paper industry
Slaughtering

The GDR delegation promised to support these efforts by assisting in the establishment of contacts for foreign trade enterprises and combines (end users) of the GDR and by strengthening cooperation with "Transinter Aussenhandelsvertretungen" and "Internationale Kooperation GmbH" (GDR trading houses) with a view to obtaining detailed project information.

*Source: External Affairs, Eastern Europe Division

EXPORT DEVELOPMENT CORPORATION

and

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

EXPORT DEVELOPMENT CORPORATION

There is a Line of Credit Agreement between the EDC and the Deutsche Aussenhandelsbank A.G.
The approved amount of the agreement is C$25 million.

Financing under the line of credit would provide financing for up to 85% of the contract price of Canadian goods and services which would, on their own merits, normally justify medium to long-term financing for services, equipment, and projects.

Deutsche Aussenhandelsbank A.G.. is a state-run institution responsible for the financing and foreign trade operations of GDR foreign trade organizations. Deutsche Aussenhandelsbank AG has the responsibility for all payments to EDC under the line of credit.

Buyers in the GDR should contact the borrower to discuss financing requirements for contracts. The Export Development Corporation can indicate, on a preliminary basis, its position on a potential contract, if requested by the borrower.

The address of the Deutsche Aussenhandelsbank (the German Bank) is:

International Banking Relations
Deutsche Aussenhandelsbank A.G..
Unter den Linden 24-30
1080 Berlin,
German Democratic Republic
Telex 114411

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

On January 15, 1990, French President, Francois Mitterrand opened negotiations regarding the formation of an Eastern European Development Bank. The bank, endorsed by President Francois Mitterrand and by the European Community, would help with the economic restructuring and modernization of east-bloc countries which have embraced democratic principles.

The 12 E.C. nations would hold a majority share of the capital of the proposed bank, which would also encompass all interested western nations and eligible east-bloc nations, which would also receive loans.

LEIPZIG FAIR

The Leipzig fair is a capital and consumer goods trade show held twice a year.

ATTENDANCE: 9,000 exhibitors from all over the world in spring (March)
6,000 exhibitors in autumn (September)

PRODUCT DIVISIONS OF THE 1989 LEIPZIG AUTUMN FAIR:

Agricultural and Food Processing Equipment packaging Machinery
Banks, Insurance Companies, Carriers
Building Construction
Chemical Industry
Electrical Engineering, Electronics, Data Processing
Food and Allied Products
Furniture, Glassware and Ceramics, Home and Leisure Goods
Industrial Supplies, Know-how Licences and Services
Leisure and Sports, Light Chemicals, paper, Packaging Materials
Machine tools and tools
Medical Equipment
Metallurgy, Heavy Machinery and Plant
Railway Rolling Stock, Watercraft and Aircraft
Road Vehicles
Teaching Aids and School Equipment
Textiles, Clothing, Leather
Toys, Jewellery, Decorations

COUNTRIES THAT HAD INFORMATION BOOTHS AT THE 1989 FALL SHOW:

Austria	Denmark	Poland	U.K.
Albania	Hungary	Portugal	U.S.
Belgium	France	Sweden	USSR
Bulgaria	Italy	Spain	Yugoslavia
China	Korea	Vietnam	Zimbabwe
Cuba	Mongolia	U.S. Dept. of Agriculture	
Czechoslovakia	Netherlands	JETRO	

CANADIAN REPRESENTATION:

Last fall, over 25 Canadian companies were represented and a joint stand of Quebec, Alberta, and Ontario attracted a great deal of official attention. The attitude towards Canada is very positive and there are opportunities in the railroad, gas storage, pulp and paper sectors. All three provinces will return to Leipzig in the fall of 1990.

SHOW DATES FOR 1990 and 1991:

March 11 - 17, 1990	March 17 - 23, 1991
September 2 - 8, 1990	September 1 - 7 1991

Province of
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